



GOVERNOR'S TRANSACTION PRIVILEGE TAX SIMPLIFICATION TASK FORCE STATE AND LOCAL STANDARDIZATION WORKING GROUP MINUTES

Tuesday, September 4, 2012

1:30 PM

1820 W. Washington, St. #200, Conference Room 101
Phoenix, Arizona 85007

A public meeting of the Transaction Privilege Tax Simplification Task Force was convened on September 4, 2012 in Conference Room 101, 1820 West Washington, St. #200, Phoenix, Arizona 85007. Notice having been duly given. Present and absent were the following members of the Task Force.

Members Present

Michael Hunter (Chair)	Linda Stanfield
John Olsen	Keely Hitt
Miguel Teposte	Vince Perez
Tom Belshe	Kevin McCarthy
Steve Barela	Senator John McComish
Lynne Herndon	Representative Rick Gray

Members Absent

No members were absent.

Staff Present

Lorna Romero, Governor's Office

1. Call to Order

Michael Hunter called the meeting to order at 1:33 p.m.

2. Welcome & Introduction of Working Group Chair

Patrick Irvine, the Chair of the State and Local Standardization Working Group, welcomed everyone to the September meeting. He acknowledged that cities and stakeholders outside of the task force have been putting in good work to determine the real issues and differences in the Model City Tax Code.

3. State and Local Taxation and Administration in Other States

Mr. Irvine explained that the working group is going to look at other states for any practices Arizona could emulate.

a) Presentations

Mr. Irvine introduced Keely Hitt from Circle K as the first presenter.

Ms. Hitt presented on sales and use taxation at the local level. She stated that as a multi state taxpayer she has a unique perspective on sales tax administration. She explained that during her

presentation she would focus on Arizona, Louisiana and Florida, comparing contact points, audits and bases.

Mr. Irvine asked why there are 50 monthly returns in Arizona.

Ms. Hitt responded in Glendale there has to be one return generated for each site. Phoenix allows consolidated return filing for the sites and program cities are all under one filing.

Representative Gray asked how much man power is needed to file returns.

Ms. Hitt answered they have one lead and two analysts.

Mr. Irvine asked if cities and towns impose separate rates.

Ms. Hitt responded counties have a surtax that can be imposed.

Linda Stanfield asked if Florida was different in the past.

Ms. Hitt answered the tax base has been in place for at least ten years.

Miguel Teposte asked why the state of Louisiana was not part of the parish portal.

Ms. Hitt responded she was unsure, but the state created their portal prior to the parishes.

Lee Grafstrom from the Arizona League of Cities and Towns contributed that there were two projects and two different tracks, which is why there are two systems.

Ms. Hitt pulled up excel workbooks to demonstrate that expensive tax software is not necessary to comply with the law. She continued that contingency fee auditors are the downside to the system in Louisiana.

Mr. Irvine asked if the category has to be determined when Circle K comes out with a new product.

Ms. Hitt answered yes.

Kevin McCarthy asked what some of the challenges are in Colorado.

Ms. Hitt responded Colorado used to have a tax on tobacco. That changed and only some jurisdictions kept it. She continued not all jurisdictions have a use tax.

Candice Bartle from Ernst and Young gave a presentation on the impact of Arizona's current tax system on taxpayers. She explained she began her career in Texas and then had to adjust to the Arizona system. Her purpose is to show what is happening in other states and to provide guidance to her clients. Ms. Bartle discussed the following items in her presentation:

- State and local inconsistencies
- Four types of sales tax: seller privilege, gross receipts, consumer levy and transaction
- Local tax sourcing

- Taxpayer impact
- Impact on the state

b) Working Group Discussion and Public Comment

Tom Belshe commented that the Department of Revenue has made great strides in getting revenue distributed to the cities, but there is still a time lapse.

Mr. Grafstrom stated that he gets direct requests to explore specific types of taxpayers and needs to be able to define a specific area and pull the tax information. He continued that he is not meaning to disrespect the Department of Revenue, but their system is created in a way that he cannot do that. Chandler has a history of tracking the information for each parcel and the tax history.

Mr. Belshe stated many of those components exist in the Department of Revenue's reporting to cities. If this function is taken away from the cities, then the Department of Revenue will have to take on all of the reporting. He continued if all of the program cities and the state are on the portal, the data will be improved. Mr. Belshe commented there may be an opportunity for compromise. The Department of Revenue has not always had the resources it needs. The Task Force needs to take their time in doing this work to understand all of the impacts.

Vince Perez commented it is important to look at proper funding for the Department of Revenue. In 2009, staffing levels were cut by 30%. He continued the staffing level is down and that gets to the problem of the Department of Revenue doing what the cities would like.

Representative Gray stated he envisions that the online portal could produce a spreadsheet of all the taxpayers. He asked if that would provide all of the needed information.

Mr. Grafstrom answered that the state has a license per taxpayer system, while he works with a license per location system. His data is tied to location and he would have all the information he needs.

Representative Gray commented each city should have that information and it should be done through the computer.

Mr. Perez stated once the portal is up and running theoretically all of the table driven data could be added. The only things that would run through the Department of Revenue would be the state, special taxing districts and the county.

Mr. Belshe commented there is a multi-jurisdiction audit committee and when a business is audited it would all be in one jurisdiction.

Mr. Irvine asked how many participants there are.

Mr. Grafstrom answered not many, only 15-20%.

Mr. Irvine asked if the audit rate in Chandler is similar to the state.

Mr. Grafstrom responded yes.

Mr. McCarthy commented that multi-jurisdictional audits do not work. He stated he is stunned that the current chaotic system is rationalized on float. The cost, burdens and impacts on business have to be compared to the cost of the cities.

Mr. Irvine commented the purpose of this group is to discuss all of the implications, minor or otherwise.

Mr. Perez stated the Department of Revenue has extensive efforts on audits on behalf of program cities. For an overall state perspective, the compliance rate is 90%. He continued the group cannot only look at the enforcement side of the issue.

Michelle Ahlmer from the Arizona Retailers Association stated many retailers operate in many states. Alabama, Louisiana and Colorado cost more to collect than all of the other states combined.

4. Differences Between the State Code and the MCTC that Cause Difficulty for Taxpayers

a) Presentations

Gabe Soto from Ernst and Young presented on state and city inconsistencies and the impact on taxpayers. His presentation covered the following issues:

- Classification differences
- Exemptions
- Nexus
- Sourcing
- Licensing
- VDA, Audits
- Procedural issues

b) Working Group Discussion and Public Comment

Mr. Irvine asked if the health spa exemption really affects cities.

Mr. Grafstrom responded it is much bigger than it seems. It includes 350 taxpayers in Chandler alone.

Mr. Belshe stated in 1985 the bases were similar. The state has made changes away from cities. One of the complaints is that sales tax rates are too high. He continued it may make sense for the state to move closer to cities. Mr. Belshe asked if it would be a big deal to businesses if there was the same rate for annual fees for all cities. He added the League thinks it would be a great way to keep track of businesses.

Craig McPike from Snell & Wilmer asked what records are needed.

Mr. Grafstrom answered changing legal ownership and location is needed.

Ms. Hitt stated if annual licensing is done through the portal it can easily be done by business owners.

Ms. Stanfield stated the less paperwork, the better.

Representative Gray commented when he had his business he would have loved to have everything the same. With the portal, a variance is allowed in the system. All businesses have to do is complete the initial form and then click on the respective cities.

Mr. Belshe stated the League is moving to have all of the self collecting cities do it the same way.

Representative Gray responded that will not be necessary if there is one portal with the information built in.

Mr. Irvine stated this conversation highlights the importance of making the portal as useful and easy as possible.

5. Licensing Differences Between State and Cities

Mr. Irvine skipped this agenda item because the information was discussed in earlier presentations.

a) Working Group Discussion and Public Comment

There were no comments made.

6. Future Working Group Meetings Regarding State and Local Standardization

Mr. Perez stated he will be returning with one spreadsheet of differences and recommendations.

Mr. Belshe commented the League has been focused on retail differences, but hopes to continue this process for every area.

Mr. Irvine stated the next step is to look at the best practices. He commented he appreciates all of the work done by the presenters.

Mr. Hunter commented the Governor greatly appreciates everyone's work.

7. Adjournment

Mr. Hunter adjourned the meeting at 3:40 p.m.